STANDARD & POOR'S

RATINGSDIRECT®

June 15, 2009

Summary:

Idaho; Note

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Table Of Contents

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Credit Profile		
US$500. mil TANs ser 2009 due 06/30/2010		
Short Term Rating	SP-1+	New

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Idaho's $500 million tax anticipation notes (TANs) series 2009.

The credit strengths of this obligation, in our opinion, include:

- Very strong 6.43x coverage ratio of TAN payments by available general fund and alternative cash sources; and
- Conservative financial management including mid-fiscal 2009 spending "holdbacks" and a tentative budget agreement for expenditure cuts in fiscal 2010 to respond to revenue pressure.

A faith and credit pledge of general tax revenues received by the state in the fourth quarter of fiscal 2010 secure the notes. In addition, the state has the option to repay all or a portion of the notes prior to the fourth quarter, and the state has covenanted to take any or all legally available actions, including transfers from other available funds if necessary, to pay principal and interest.

The state annually issues TANs to alleviate cash-flow deficiencies. This is the second largest issuance in the current decade, although it is $100 million less than series 2008's $600 million, for which the state has now fully set aside funds for repayment. TAN borrowing increased following a legislative change enacted in 2007 that accelerated the state's disbursements to public schools. The $500 million for series 2009 represents 19% of total anticipated receipts (excluding TANs proceeds) in fiscal 2010, which is below the 23% ratio in fiscal 2009.

The state projects ending fiscal 2010 general fund cash that, after adjusting for the pro forma TAN interest expense, translates into an adequate 1.05x coverage ratio. This would echo projected 1.09x coverage in fiscal 2009, however, it is down from ratios that exceeded 1.50x in fiscals 2006-2008 due, in part, to weakness in revenues related to the current recession. Fiscal 2010 cash-flow projections are based on the nearly-completed fiscal 2010 budget, with revenues attributable to the executive branch's March 2009 economic and revenue forecast. The state forecasts fiscal 2010 income tax receipts from individuals will represent 47% of receipts excluding TANs and will decline by 1.6% from fiscal 2009. Sales taxes are forecast to account for 40% of receipts and to decline by 1.5%. Overall receipts, excluding TANs, will decline by 0.9% according to the state.

Substantially mitigating concern over weaker revenue performance, in our opinion, has been the state's active response to the effects of the economic downturn in fiscal 2009. Idaho cut spending by an aggregate 6% by mid-year as the state's revenue outlook worsened, and it has included expenditure cuts in the tentative fiscal 2010 budget agreement that would reduce appropriations by 15.3% relative to its original fiscal 2009 appropriations. We understand that revenues from the America Reinvestment and Recovery Act may allow the state to defer any substantial reorganizations and eliminations of services until fiscal 2011, as the state intends to use 84% of its $1.2

billion allocation in fiscals 2009 and 2010. However, management indicates that fiscal 2010 spending holdbacks or draws on reserves outside the general fund subject to legislated limits are likely if the revenue picture continues to deteriorate.

We understand that ongoing declines in employment levels have complicated revenue forecasts. State data show that seasonally adjusted employment has decreased by 2.9% during the past 12 months through April 2009. Although state forecasters project the beginnings of a rebound in the first quarter of 2010, we note that continuing employment losses would have implications for individual income tax revenues and, potentially, sales tax revenues.

A key credit strength, in our view, is the availability of what the state projects will be an additional $2.8 billion of borrowable resources held in various funds, with 55% of them held in a local government investment pool (AAAf/S1+). These additional borrowable resources would increase coverage at maturity to what we consider to be a very strong 6.43x. Within this $2.8 billion total are what the state projects will be $280.2 million in reserve funds at the end of fiscal 2010 that the state could permanently transfer to the general fund:

- Budget Stabilization Fund: $101.7 million;
- Public Education Stabilization Fund: $109.1 million;
- Economic Recovery Reserve Fund: $69.4 million

Historically, the state has set aside revenues in the note payment account during the third and fourth quarters, as soon as excess funds become available. In fiscal 2009, the state made its first set aside on Jan. 21, 2009, and completed its final note deposit on May 5, 2009. The state has covenanted to restrict note repayment account deposits in treasuries, agencies, fully-collateralized time certificates of deposit, or fully-collateralized repurchase agreements. All investments must mature no later the maturity date of the series 2009 TANs.

Related Research

USPF Criteria: "Short-Term Debt," June 15, 2007

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